MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BEC1034 – MICROECONOMICS

(All Sections / Groups)

15 OCTOBER 2016
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TWELVE (12)** pages excluding cover page.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR (Optical Mark Recognition) sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** (optical mark recognition) sheet.

1. The existence of scarcity does not imply that
   A. necessity of making choices.
   B. existence of opportunity costs.
   C. existence of competition.
   D. impossibility of cooperation.

2. Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour. The opportunity cost of producing a unit of Y is
   A. 1 unit of X for Agnes and 2 units of X for Brenda.
   B. 1 unit of X for Agnes and ½ unit of X for Brenda.
   C. 1 hour for Agnes and ½ hour for Brenda.
   D. 1 hour for Agnes and 2 hours for Brenda.

3. Decisions are best made by weighing
   A. internal benefits and external costs.
   B. external benefits and internal costs.
   C. average benefits and average costs.
   D. marginal benefits and marginal costs.

4. The determination of overall price in market is primarily a concern of
   A. positive economics.
   B. negative economics
   C. macroeconomics.
   D. microeconomics.

5. The statement "Prices rise more in countries with rapid growth in the money supply" is
   A. a political statement.
   B. a positive statement.
   C. a normative statement.
   D. an ethical statement.

Continued....

6. Markets coordinate individual decisions chiefly through
   A. price adjustments.
   B. government decisions.
   C. advertising.
   D. cooperation and competition.

7. The PPF (production possibility frontier) shifts outward as a result of
   A. an increase in the production of consumption goods.
   B. a decrease in R&D (research and development) expenditure.
   C. an increase in population.
   D. the destruction of a portion of the capital stock.

8. The equilibrium quantity and the quantity demanded may differ because equilibrium quantity
   A. is a point on the demand curve and quantity demanded is on the supply curve.
   B. is measured in units per time and quantity demanded is measured in units only.
   C. corresponds to the equilibrium price whereas quantity demanded may correspond to a non-equilibrium price.
   D. is on the horizontal axis: quantity demanded is on the vertical.

9. Which of the following influences buying plans and varies along a demand curve?
   A. The price of the good.
   B. The prices of related goods.
   C. Income.
   D. Preferences.

10. Over the past decade technological improvements in producing computers have increased
    A. both the supply and the quantity supplied.
    B. the supply but not the quantity supplied.
    C. the quantity supplied but not the supply.
    D. neither the supply nor the quantity supplied.

11. Assume beef and leather belts are complements in production. If you are concerned about health and diet shifts the demand curve for beef leftward, the result in the market for leather belts will be
    A. a lower price and a smaller quantity supplied.
    B. a lower price and a larger quantity supplied.
    C. a higher price and a smaller quantity supplied.
    D. a higher price and a larger quantity supplied.

Continued...

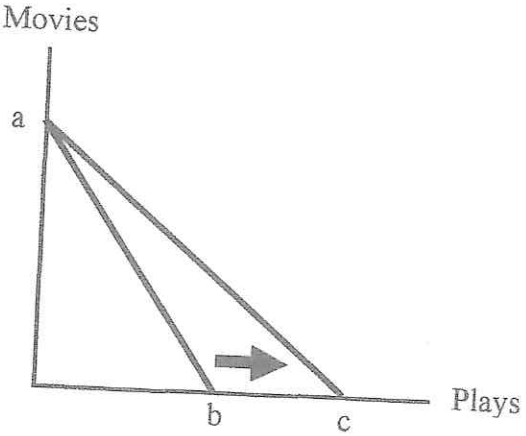
12. Which of the following correctly describes how price adjustment eliminates a shortage?
    A. As the price rises, the quantity demanded decreases while the quantity supplied increases.
    B. As the price rises, the quantity demanded increases while the quantity supplied decreases.
    C. As the price falls, the quantity demanded decreases while the quantity supplied increases.
    D. As the price falls, the quantity demanded increases while the quantity supplied decreases.

13. Suppose that the short-run price elasticity of demand for oil is 0.1. Then, in order to boost the price of oil by 20 percent, the quantity of oil must be
    A. decreased by 200 percent.
    B. decreased by 20 percent.
    C. decreased by 2 percent.
    D. decreased by 0.2 percent.

14. A good is likely to be more price elastic when
    A. its price falls.
    B. the percentage of income spent on it decreases.
    C. it is a necessity.
    D. it has close substitutes.

15. If a price decrease results in an increase in total revenue, demand must be
    A. inelastic in that range.
    B. elastic in that range.
    C. unit elastic in that range.
    D. linear in that range.

Figure 1: Mark's Monthly Budget Constraints



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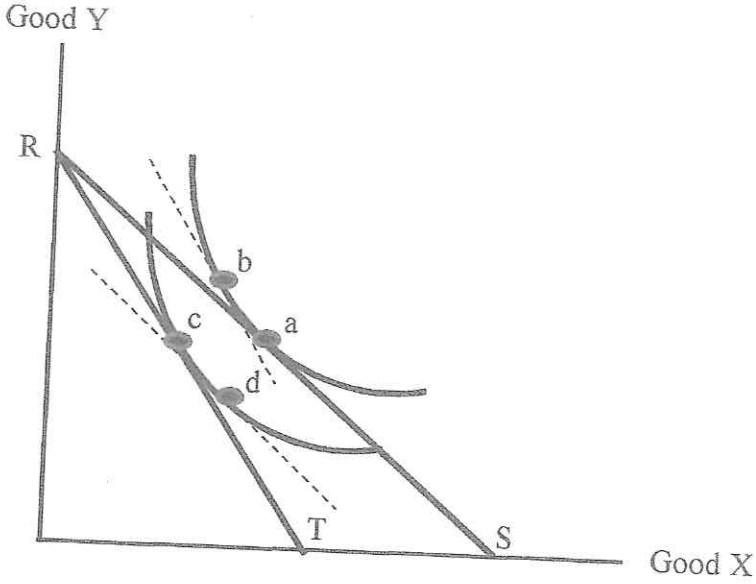
16. In Figure 1, Mark's monthly budget constraint for movies and plays changed, as shown by the arrow. The change was caused by
    A. a decrease in Mark's income.
    B. an increase in Mark's income.
    C. a fall in the price of a play.
    D. a rise in the price of a play.

17. The principle of diminishing marginal utility means that the consumer surplus from the second slide of pizza is
    A. greater than that from the first.
    B. equal to that form the first.
    C. less than that from the first.
    D. not comparable to that from the first.

Figure 2: Substitution and Income Effect



18. In Figure 2, if the budget line shifts from RT to RS, the substitution effect is illustrated by the move from
    A. a to d.
    B. a to b.
    C. c to d.
    D. c to a.

Continued...

19. Diminishing marginal returns refer to a situation in which the
    A. marginal cost of the last worker hired is less than the marginal cost of the previous worker hired.
    B. average cost if the last worker hired is lee than the average cost of the previous worker hired.
    C. marginal product of the last worker hired is less than the marginal product of the previous worker hired.
    D. average product of the last worker hired is less than the average product of the previous worker hired.

20. Which of the following is **FALSE**?
    A. Long-run average variable costs equal long-run average total costs.
    B. Fixed costs decline in the long run.
    C. Eventually, a firm will experience decreasing returns to scale.
    D. In the long-run fixed costs are zero.

Table 1: Swanky's Production

Labor (workers)	Total product (sweaters per day)
0	0
1	3
2	12
3	19
4	23
5	25

21. Refer to Table 1. If Swanky employs 3 workers, total product (measured in sweaters per day), average product, and marginal product (measured in sweaters per day) are
    A. 19, 6 1/3, and 9 respectively.
    B. 3, 19, and 6 1/3 respectively.
    C. 19, 3, and 9 respectively.
    D. 19, 6 1/3, and 7 respectively.

22. In perfect competition, the product of a single firm
    A. has many perfect substitutes.
    B. has many perfect complements.
    C. is sold under many differing brand names.
    D. is sold to different customers at different prices.

Continued...

23. A competitive firm is more likely to shut down during a recession, when the demand for its product declines, than during an economic expansion, because during the recession it may be unable to cover its
    A. fixed costs.
    B. variable costs.
    C. historic costs.
    D. depreciation due to machinery becoming obsolete.

24. The firm's supply curve is the upward-sloping part of its
    A. marginal cost curve, at all points above the point of minimum average variable cost.
    B. marginal cost curve, at all points above the point of minimum average fixed cost.
    C. marginal revenue curve, at all points above the point of minimum average revenue.
    D. marginal revenue curve, at all points above the point of minimum average total cost.

25. A perfectly competitive firm's marginal cost exceeds its average revenue at its current output. The firm will
    A. lower its price.
    B. raise its price.
    C. reduce its output.
    D. increase its output.

26. In a perfectly competitive industry, a permanent increase in demand initially brings a higher price, economic
    A. loss, and entry.
    B. loss, and exit.
    C. profit, and entry.
    D. profit, and exit.

27. Which of the following may be a gain from monopoly?
    A. Monopolies do not waste resources trying to innovate.
    B. Monopolies may be able to capture economies of scale.
    C. Monopolies may be able to price discriminate, thereby boosting consumer surplus.
    D. Monopolies may earn an economic profit in the long-run.

Continued...

28. Which of the following is true for both monopoly and competition?
    A. There is no market supply curve.
    B. Economic profits result in market entry.
    C. Firms shut down if losses exceed fixed cost.
    D. Economic profits can be sustained over time.

29. The marginal revenue curve for a monopoly
    A. lies below the demand curve.
    B. coincides with the demand curve.
    C. lies above the demand curve.
    D. is horizontal.

30. One difference between perfect competition and monopolistic competition is that
    A. a perfectly competitive industry has fewer firms.
    B. in perfect competition, firms slightly differentiate products.
    C. monopolistic competition has barriers to entry.
    D. firms in monopolistic competition have market power.

31. Excess capacity and high advertising expenditures are costs of
    A. perfect competition.
    B. monopolistic competition.
    C. monopoly.
    D. oligopoly.

32. In long run, all firms in an industry that is monopolistically competitive earn
    A. negative accounting profit.
    B. zero accounting profit.
    C. negative economic profit.
    D. zero economic profit.

33. The maximum total profit that can be made by colluding duopolists
    A. is less than the profit made by a monopolist.
    B. equals the profit made by a monopolist.
    C. exceeds the profit made by a monopolist.
    D. bears no relation to the profit made by a monopolist.

Continued....

34. Which of the following is characteristic of oligopoly, but not of monopolistic competition?
    A. The choices made by one firm have a significant effect on other firms.
    B. Each firm faces a downward-sloping demand curve.
    C. Firms are profit-maximizers.
    D. There is more than one firm in the industry.

Table 2: Bob and Joe's Payoff Matrix

		Bob	
		Confess	Don't confess
Joe	Confess	10 years 10 years	20 years 1 year
	Don't Confess	1 years 20 years	2 years 2 years

35. Table 2 displays the possible outcomes for Bob and Joe, who have been arrested for armed robbery and car theft. Which of the following is true?
    A. If Joe confesses, Bob should not confess.
    B. If Bob confesses, Joe should not confess.
    C. The outcome of the game, even though Joe and Bob cannot collude, is that they will both serve 2 years.
    D. If Joe not confess, Bob should not confess.

36. A company finds that, when it hires the next worker, the worker's MRP (marginal revenue product) exceed the cost of the worker. In this case, the company should
    A. definitely hire the worker.
    B. perhaps hire the worker, depending on the relationship between the company's MC (marginal cost) and MR (marginal revenue).
    C. definitely not hire the worker.
    D. perhaps not hire the worker, depending on the relationship between the company's MC (marginal cost) and MR (marginal revenue).

37. The demand of labor usually decreases if
    A. the price of capital rises.
    B. technology increases labor's productivity.
    C. the price of the firm's output falls.
    D. the prices of other inputs rise.

Continued....

38. Firms hiring in perfectly competitive labor markets
    A. pay less than the market wage.
    B. pay more than the market wage.
    C. hire until marginal revenue product equals the market price.
    D. hire until marginal revenue product equals the market wage.

39. An increase in the demand for a factor of production normally
    A. decrease both its price and its quantity supplied.
    B. increase both its price and its quantity supplied.
    C. decreases its price but increases its quantity supplied.
    D. increases its price but decreases its quantity supplied.

Table 3: Production Schedule

Quantity of labor	0	1	2	3	4	5
Total Revenue (RM)	0	20	36	48	56	60
Units of output	0	5	9	12	14	15

40. In Table 3, if the wage rate is RM8 per hour, the profit-maximizing number of units of labor is
    A. 1.
    B. 2.
    C. 3.
    D. 4.

SECTION B: STRUCTURED QUESTIONS [60 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

a) Define price elasticity of demand and explain its formula. (4 marks)

b) If there is an increase in price, discuss its impact on the total revenue when
i) demand is elastic. (1 mark)
ii) demand is inelastic. (1 mark)

c) Suppose that business travellers and vacationers from Kuala Lumpur to Singapore have the following demand shown in Table 4:

Table 4: Market for Flight Tickets from Kuala Lumpur to Singapore

Price (RM)	Quantity Demanded (business travellers, tickets)	Quantity Demanded (vacationers, tickets)
150	2100	1000
200	2000	800
250	1900	600
300	1800	400

If the price of tickets rises from RM200 to RM250, use midpoint method to calculate the price elasticity of demand for
(i) business travellers (2 marks)
(ii) vacationers (2 marks)

Part B

a) Define price ceiling and price floor. Which one will cause a shortage of a good? Which one will cause a surplus? (6 marks)

b) If the government sets a price floor for milk that is above the competitive equilibrium price. Draw a graph to illustrate the above situation. Please show the competitive equilibrium price, the price floor, the quantity that would be sold in competitive equilibrium, and the quantity that would be sold with the price floor. (4 marks)

[TOTAL 20 MARKS]

Continued...

Question 2

Part A

Julie Corporation produces biscuits. Table 5 shows the relationship between the number of workers and output (in kilograms of biscuits) in a given day:

Table 5: Julie Corporation's Production and Cost

Workers	Output	Marginal Product	Total Cost	Average Total Cost	Marginal Cost
0	0	---		---	---
1	28				
2	50				
3	67				
4	80				
5	90				
6	95				
7	96				

a) Fill in the column of marginal products. What pattern do you see? Explain. (6 marks)

b) A worker costs RM30 a day, and the firm has fixed costs of RM10. Fill in the column of total cost. (4 marks)

c) Fill in the column of average total cost. What pattern do you see? (5marks)

d) Fill in the column of marginal cost. What pattern do you see? (5 marks)

[TOTAL 20 MARKS]

Question 3

Part A

a) Distinguish **FOUR** characteristics of perfect competition and monopoly market.

(8 marks)

Part B

a) Colgate is one of the many firms in the market for toothpaste in the long-run equilibrium.

Continued...

i) Draw a diagram to show Colgate's demand curve, marginal-revenue curve, average-total-cost curve, and marginal-cost curve. Label Colgate's profit-maximizing output and price. (8 marks)

ii) How much is Colgate's profit? Explain. (2 marks)

iii) On the same diagram, show the consumer surplus derived from the purchase of Colgate toothpaste and the deadweight loss relative to the efficient level of output. (2 marks)

[TOTAL 20 MARKS]

End of Paper